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City Council
City of Culver City

In planning and performing our audit of the financial statements of the City of Culver City as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Culver City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. One matter conforms to this definition, as follows:

(1) Purchasing Controls

The Purchasing Officer has the ability to set up new vendors, has the ability to create and approve purchase orders, and approves all invoices initiated by the Purchasing Department. This combination of key accounting duties creates a potential for fictitious vendor fraud.

Recommendation

We recommend that the Chief Financial Officer review all purchases that are both initiated and approved by the Purchasing Officer to ensure that the purchase is reasonable and for appropriate City activities.

In addition, we observed the following matters, which were not deemed to be significant deficiencies or material weaknesses and offer these best practices comments and suggestions.

(2) Controls over Cash Receipts

The Accountant in the Treasury Department has access to cash receipts, approves the reconciliation of the daily cash receipts, prepared the bank deposits, and has the ability to make adjustments in the Quadrant cashiering system. It would be possible for this individual to void a receipt for a non-billed payment (such as voluntarily reported business license taxes) and missappropriate cash for the amount of the void.

Mgt. Ltr.
5/11/09

(2) Controls over Cash Receipts. (Continued)

Recommendation

We recommend that an individual who does not have access to the Quadrant cashiering system be responsible for balancing daily cash receipts and preparing the daily bank deposits. This would provide a more effective segregation of duties between the handling and verification of amounts received in the Treasury Department.

(3) Compliance with City Disbursement Policies

We tested a random sample of twenty-five invoices that were paid during the year ended June 30, 2008. We noted that four of the twenty-five invoices selected for testing were not cancelled to prevent duplicate payment in accordance with City policy.

Recommendation

We recommend that the City consider changing the policy that requires the cancellation of all invoices processed for payment because the accounting system has controls to prevent entry of duplicate invoice number. Alternatively, the City should ensure that the policy is consistently followed.

(4) Excess Surplus Calculation

During our review of the Culver City Redevelopment Agency's compliance with Health & Safety Code §33334.12, we noted that the excess surplus calculation was not included on Housing and Community Development (HCD) Schedule C which was filed with the State of California for the year ended June 30, 2007. The calculation was presented as a supplementary schedule in the audited financial statements.

Recommendation

We recommend that the excess surplus calculation be included in HCD Schedule C for filing with the State of California for the year ended June 30, 2008.

(5) Documentation of Hiring Controls

With the implementation of the new audit risk assessment standards, we performed tests personnel files for compliance with hiring policies. We noted that employment applications for two management level individuals selected for testing were not included in the files. In addition, we noted that none of the pay rates on the applicable payroll registers agreed with the most recent personnel action form ("PAF") in each file because the City does not include PAFs for standard step and cost-of-living increases in the personnel files. Additionally, no evidence of a criminal background check was noted in the file for those two employees. We were informed that the City is prohibited by law from retaining copies of Livescan information.

(5) Documentation of Hiring Controls, (Continued)

Recommendation

Since it is a City policy to ensure that thorough background checks are performed during the hiring process, it is considered best practice to retain document that the Livescan was performed. In addition, we recommend that employment applications be required for all employees.

(6) Comprehensive Antifraud/Ethics Policy

While making inquiries with management as required by *Statement on Auditing Standard No. 99 – Consideration of Fraud in a Financial Statement Audit*, it was noted that the City does not have a formalized all-encompassing fraud policy. A formal fraud policy can be an effective method of communicating and reinforcing an antifraud culture within the City. A fraud policy communicates to all employees the City's position and policy on matters such as the following:

- Risks that the City faces from fraud, abuse, and other forms of misconduct;
- An ethical code of conduct;
- Definitions of ethical misconduct, including fraud and abuse;
- Employee's responsibility to report suspected ethical misconduct (including an established reporting mechanism, such as a member of City Council, a designated member of City management, a hotline service, etc.);
- Organizational responsibility to investigate; and
- Disciplinary action for violations.

Recommendation

Internal control standards recommend that organizations develop and implement a formal antifraud policy. We recommend that the policy be acknowledged and signed by each employee upon his or her hire date, in conjunction with an orientation that includes an emphasis on ethical conduct. Some organizations also require that employees sign a copy of the policy on an annual basis as evidence of their reaffirmation that they understand the policy and have complied with its provisions. In addition, the City could conduct fraud control training for all employees, not just new employees, and release a periodic message from the City Manager stressing the importance of ethical conduct. We recommend that the City implement procedures that are believed to be appropriate for its size and structure.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We noted no items during our audit that conform to this definition.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

This communication is intended solely for the information and use of management, City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman Melman P.C.

Irvine, California
December 15, 2008